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SUPERMARKET BUSINESS

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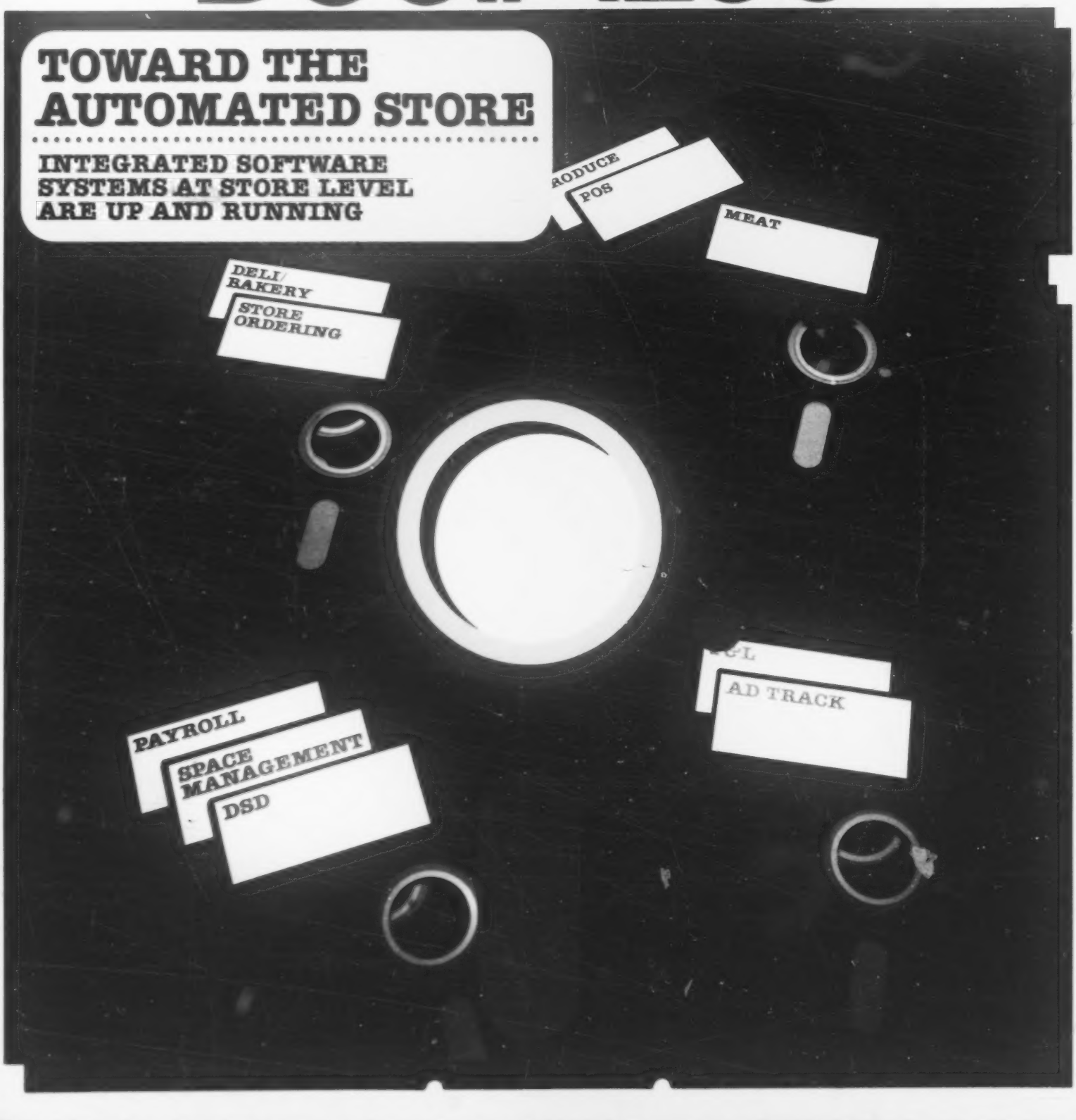
FEBRUARY 1990

TOWARD THE AUTOMATED STORE

INTEGRATED SOFTWARE SYSTEMS AT STORE LEVEL ARE UP AND RUNNING



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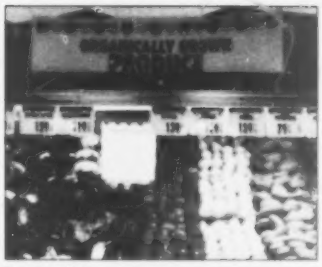

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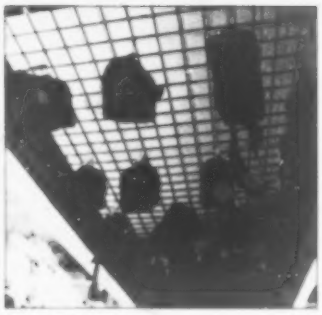

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To sell more general merchandise in its smaller supermarkets, A&P has found creative ways to use every bit of space.

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Properly planned promotions can be a low-cost source of excitement and profit for your instore departments.

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Cover Photo: Marisa Pellegrini

HOW BIG IS BIG ENOUGH? (ONE MORE TIME)

By Ken Partch, Editor-in-Chief

How big should a big store be, if a big store is the way to be? That variation on the old children's tongue twister about woodchucks is not as naive as it sounds. Last June, we asked that question in a cover story. We thought the question would stir up a lot of response, but it didn't.

Perhaps it was one of those questions that few would want to answer if it meant having to admit a bad mistake. Something like: "What ever became of that 'automated' warehouse you built and had to shut down?" As stores start heading toward hypermarket size, but with less and less justification, the question is becoming a lot more than academic.

Even if the real estate comes to you at bargain-basement prices per square foot, there are plenty of other considerations. We suspect that was the lure in many parts of the country when a lot of former discount store space became available, as general merchandise discounters went bust in the early and middle '80s.

Byron Allumbaugh of Ralphs will tell you that 100,000 sq. ft. can be too big. That's what he discovered with the 14 former Zody's that were converted to the Giant formats. So will Don Bonham of Fiesta Mart. His 180,000 square-footer in Johnson City is proving the same thing. "People don't feel comfortable in it," says Bonham, "and say it takes too long to shop." With today's shoppers' attitude toward time, there's probably no more important consideration.

But we think there are some other points to be made about store economics that have been overlooked by many operators today. A number of things happen when a store becomes very large, if a number of other things also happen. Rent is always important, of course. But so is the cost of inventory—especially high-ticket, slow-moving general merchandise, and high-ticket perishables with a lot of added labor cost.

Something also happens to shopping frequency and the purchasing mix. Shopping frequency goes down with a very big store, because few people want to spend that much time very often. As shopping frequency goes down, the size of the transaction had better go up.

But as shopping frequency goes down, the mix changes. Fewer perishables as a percent of total purchases are bought—for the simple reason that the customer is limited to how much one can stockpile perishables.

If you don't turn the assets, the gross declines, the net declines and the ROI declines—and that's also what we have been doing since the '50s.

But perishables carry higher gross margins. This means that the total gross margin of the transaction goes down, and the yield goes down.

But we'll make it up with the higher gross margins in general merchandise and HBA, they say. And the question comes back "Will you?" Each "cannibalized" department that supermarkets have added since the '50s has promised better gross margins, as the number of supermarkets has caught up with (and surpassed) the total available shoppers in a market. Sometimes, with things like greeting cards, they have. But sometimes they have not, because they have had to compete with existing or new forms of competition, who really set the prices. Net profits since the '50s have usually declined.

Some of the reasons are simple. When you acquire parts of a drugstore or parts of a variety store or parts of a discount general merchandise store, you cannot count on having "captured" shoppers who *have* to buy from you. The odds are that the drugstore and the variety store or discount store is still going to be the price setter in those departments, or will know how to move the goods out better than you will, and *that* will control your gross margin in those departments—unless you occupy a very special niche.

Something like this is what happens with the hypermarket or near-hypermarket. As Al Graham of Oshawa will tell you about their experience with hypermarkets, "We got the sales in general merchandise, but we never got the gross."

There is a very high cost of inventory when it comes to perishables and service departments and general merchandise. In perishables you can get killed with shrink. In service departments you can get killed with labor cost *and* shrink. If you don't turn the general merchandise—that is, move it out—you don't turn the assets. If you don't turn the assets, the gross declines, the net declines and the ROI declines—and that's also what we have been doing since the '50s.

But perhaps that's as it should be. You don't get automatic rewards for reinventing the supermarket. When supermarkets were scarce, almost anybody could succeed with one. When department stores finally figured out (with the help of Malcolm McNair of Harvard) what and how the discount stores were doing to them, they put the discounters out of business. The discounters had discovered a weak spot in department store economics and exploited it. They (department stores) really weren't entitled to 40 percent gross margin on white goods.

The big store works when it brings something to a marketplace

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BPA ABP

TRADE SCAN

Jim Moody Wins Sidney R. Raab Service Award

James L. Moody, chairman and CEO of Hannaford Bros. (Portland, Maine), is this year's winner of the Sidney R. Raab Award.

The award, considered among retailing's highest honors, is presented annually at the Food Marketing Institute's Midwinter Executive Conference in January.

It recognizes "individuals who hold firm to the values and beliefs of Sidney R. Rabb, an industry pioneer and

James L. Moody

leader in serving consumers, the community and the nation," said FMI chairman Dean Werries in making the presentation.

Moody was named in recognition of his "extraordinary contribution to the food industry through community service and industry statesmanship," Werries said.

"Jim is devoted not only to his industry, but also to his community," he added. "He has heightened public awareness throughout his company — awareness of his customers as well as his employees.

Noting that Moody served as FMI chairman from 1985 to 1987 — "a period marked by tax reform and the growth of technological tools" — Werries said:

"It is clear that even with his busy schedule for his own company, Jim has found the time to admirably serve his industry and his community."

NGA Board Supports Ohio Grocers' Antitrust Action Against Union

During the 1990 National Grocers Association Convention, held last month in San Antonio, the NGA Board of Directors passed a resolution in support of Ohio-based independent grocers who have used federal antitrust laws to challenge the actions of a union (*A & P Supermarkets v. United Food and Commercial Workers, Local 880*).

Under the terms of the union's collective bargaining agreement with some of the independent grocers' competitors, Local 880 members are required to initiate picketing of nonunion retailers.

Judge Batchelder rejected the union's motion to dismiss the case, ruling that the facts alleged in the complaint could, if proved, constitute a violation of federal antitrust law.

Discount Drugstores: Tough to Compete With on Price, But . . .

Deep discount drug chains can severely cut into a supermarket's high-margin health and beauty aid business, according to a study by Willard Bishop Consulting Ltd. (Barrington, Ill.). And much of that business may not be retrievable without severely deflating profits.

But that doesn't necessarily mean that DDD chains will put supermarkets out of the HBA business. In HBA, as in other departments, the report suggests that supermarkets can maintain a strong business based on the convenience factor, even if a DDD store comes to town.

The study found that shoppers who visit both kinds of stores spend more on HBA per visit in DDD stores than they do at supermarkets — an average of $24.37 versus $15.04.

But it also found that those same consumers visit supermarkets more frequently.

Buying patterns indicate that shoppers generally go to deep discounters to stock up on certain goods while continuing to do supplemental supermarket shopping between DDD store visits.

The report suggests that supermarkets that do not wish to engage in price wars with nearby deep discounters should concentrate on the convenience aspect of their HBA stock, tailoring it to those products that continue to sell well after a DDD store establishes itself.

AVERAGE CONSUMER VISITS PER MONTH

Supermarket within 2 miles of DDD	Supermarket	5.46
	DDD	2.41
Supermarket at least 2 miles from DDD	Supermarket	5.97
	DDD	1.75

Although consumers spend more per visit on HBA at deep discount drugstores ($24.37) than at supermarkets ($15.04), supermarket visits per month are much more frequent.

How Big Is Big Enough? (One More Time)

Continued from page 5

that isn't already there. As it was with Wegman's of Rochester, N.Y.

Wegman's brought a degree of professionalism, of presentation of product, and of merchandising, as well as size, that the market didn't have. And so, Wegman's could make the 70,000-, 80,000- and even 100,000-sq.-ft. store work. But that doesn't mean that it will work everywhere, every time, and every place. Don't forget, Wegman's was surrounded by some very weak competition.

Of course stores are, generally, getting bigger. But there has to be an optimum size for a given market, and for accomplishing what it is you want to accomplish in that market. Why should it be 55,000 sq. ft. everywhere? Unless that is the only kind of store you know how to run, and it is always going to have the same departments — which seems highly unlikely.

There isn't always the same need for a pharmacy, or a large automotive department, or a large video department. Available competition should have *something* to do with it. If you can't do it better, why do it? Because you've got the traffic? Uh, huh.

In this issue, there is an article on how Ralphs has repositioned its former Giant store in Hollywood. With the enormous ethnic changes taking place in many U.S. markets, there are lessons to be learned here.

Pesticides Scarcer, FDA Tests Show

The United States Food & Drug Administration has been testing foods for pesticide residues more, but finding them less, according to a recent FDA report.

In 1988, 61 percent of raw food tested completly negative for pesticide residues, as opposed to 57 percent in 1987. And less than 1 percent of domestic produce tested in 1988 was found to have pesticide residues exceeding tolerance levels set by the EPA.

The report further notes that in 1987, the year of the most recent study on the subject of pesticide ingestion by Americans, consumer intake of agricultural chemicals was less than 1 percent of the Acceptable Daily Intakes of most of the pesticides measured.

Pesticide levels in imported food products were generally higher than in domestic foods. In a breakdown of findings that includes foreign food sources, the FDA reported that vegetables had the highest incidence of residues exceeding tolerances, with 5.6 percent of samples testing over accepted limits.

Consumers Heed Cereals' Health Claims—FTC

If cereals didn't make health claims, fewer people would be eating high-fiber cereals, according to a government study.

The United States Federal Trade Commission reported, in its publication *FTC News Notes*, that a staff study concluded that health claims on cereal packaging and in promotions result in more people eating cereal, and in a greater proportion of cereal eaters turning to high fiber cereals.

While the report didn't make specific recommendations about the regulatory implications of its conclusions, it did note that the effects of the health claims are most pronounced for groups that are not well reached by media information sources.

HEALTH & BEAUTY AIDS: SAMI FOUR-WEEK FOOD STORE UNIT TRENDS VS. YEAR AGO

PRODUCT GROUP AND CATEGORY	% CHANGE VS. YEAR AGO 4 WEEKS ENDING 10/6/89	4 WEEKS ENDING 11/3/89	4 WEEKS ENDING 12/1/89
BABY NEEDS	**+ 0.5%**	**– 0.3%**	**+ 1.0%**
Baby Powders	+11.3	+10.8	+ 7.1
Baby Oils, Creams & Lotions	– 5.1	– 6.8	– 2.8
Infant Clothes	– 2.5	–12.4	– 4.9
Nursing Supplies	+ 1.5	+ 3.9	+ 3.4
PERSONAL NEEDS	**+16.5%**	**+20.9%**	**+23.2%**
Contraceptives	+15.5	+14.8	+23.7
Personal Lubricants	+21.6	+17.4	+18.3
Home Testing Kits	+20.1	+32.6	+22.3
Thermometers	+28.2	+39.4	+25.4
DEODORANTS	**– 2.9%**	**– 2.2%**	**+ 0.8%**
Sprays	– 4.0	–12.3	– 7.9
Roll-Ons	–12.9	– 7.1	– 1.3
Stick Deodorants & Pads	+ 2.2	+ 5.0	+ 1.9
Creams	–12.5	– 5.8	– 3.9
Deodorants & Talcum Powders	– 3.2	– 0.3	+ 9.9
Feminine Hygiene Deodorants	– 8.7	–13.7	0
Foot Deodorants & Athlete's Foot Remedies	+ 8.5	+ 6.4	+ 6.0
Feminine Douches	– 0.5	– 0.3	+10.5
FIRST AID	**+ 0.7%**	**+ 2.4%**	**+ 7.7%**
Antiseptics	+ 1.7	+ 1.2	+ 3.9
First Aid Products	– 0.1	+ 2.3	+ 7.2
Elastic Goods & Dressings	+79.6	+76.3	+98.1
HAIR CARE NEEDS	**+ 4.1%**	**+ 1.6%**	**+ 3.8%**
Shampoos	+ 5.8	+ 2.6	+ 6.4
Hair Sprays	+ 0.7	– 1.7	– 2.5
Hair Conditioning Rinses	+ 8.3	+ 4.3	+ 8.2
Hair Setting Needs	+10.1	+ 6.5	+12.9
Home Permanent Kits	+ 3.6	+ 1.6	– 9.2
Hair Coloring	– 0.4	– 5.3	– 2.0
Hair Dressing Needs	–15.5	– 7.1	– 8.1
ORAL HYGIENE	**– 0.8%**	**– 0.6%**	**+ 1.6%**
Toothpastes & Powders	– 2.0	– 1.5	– 0.6
Mouthwashes	+ 0.9	– 0.6	+ 3.6
Breath Fresheners	+ 3.4	+ 6.4	+ 8.7
Denture Cleaners	– 1.8	– 9.4	– 7.3
Denture Adhesives	+ 0.8	+ 0.6	+ 0.1
Toothbrushes	+ 1.8	+ 5.7	+10.6
Dental Aids	+ 6.5	– 2.2	+ 5.8
PROPRIETARY REMEDIES	**– 1.6%**	**+ 2.0%**	**+ 1.1%**
Antacids	– 2.1	– 2.9	– 0.2
Internal Analgesics	– 2.6	– 2.1	+ 1.3
External Analgesics	– 0.3	+ 0.3	– 2.3
Cold Remedies	+ 1.8	+ 6.0	+ 4.1
Nasal Sprays/Drops/Inhalers	– 2.5	+ 4.1	– 3.7
Chest Rubs	– 0.2	– 8.1	– 2.0
Cough Remedies	– 5.3	+ 9.3	– 1.0
Laxatives	+ 3.0	+ 3.9	+ 3.3
Sleeping Aids	– 1.1	+ 5.0	+ 2.3
Tranquilizers	+ 6.0	+ 1.6	+ 1.7
Eye Care Products	+ 8.5	+ 4.2	+ 6.8
Appetite Suppressants	–22.5	–18.6	–22.5
Synthetic Vitamins	– 5.7	– 1.8	+ 2.1
Natural Vitamins	+ 1.1	+ 8.6	+11.2
SHAVING NEEDS	**– 3.0%**	**– 2.7%**	**– 3.7%**
Shaving Creams	– 2.2	+ 4.2	– 2.8
Pre-Shave Lotions	+ 0.1	– 4.8	+ 8.2
After-Shave Lotions	+ 3.4	– 7.0	– 0.5
Razor Blades	– 6.2	– 4.9	– 3.1
Razors & Blades	+35.5	+25.8	+28.7
SKIN CARE AIDS	**– 4.1%**	**– 4.6%**	**– 3.1%**
Hand & Body Creams & Lotions	– 6.2	– 5.9	– 4.5
Facial Preparations	+ 8.6	0.0	+ 3.2
Lip Care Products	–13.7	– 8.3	– 9.1
Suntan Lotions & Oils	–17.0	–30.3	+ 4.9
Cosmetic & Medicated Skin Aids	– 1.3	+ 2.4	+ 4.7
TOTAL ALL CATEGORIES	**– 0.2%**	**+ 0.4%**	**+ 1.5%**

HBA UNIT SALES OUTGAIN OTHER DEPARTMENTS

Overall November rise is 1.5 percent, with volume increases in seven of nine product groups.

BY ALAN B. MILLER, JR.

For the four-week period ending December 1, 1989, unit sales of 57 health and beauty aids product categories tracked by Arbitron/SAMI showed a 1.5% increase over the comparable four-week period of the previous year.

This improvement surpassed the performances of all four other product departments during the same period, and was nearly twice the gain recorded for all product departments combined (0.8%).

Unit gains were less than 1% for shelf-stable foods, frozen foods and refrigerated foods. Dry grocery nonfood unit volume for the period was 1.2% higher than during the comparable 1988 interval.

Measured on a dollar basis, HBA's 6.7% gain was surpassed only by an increase of 8.3% for dry grocery nonfood products.

The November performance of HBA compared favorably with the 0.4% gain of the previous four-week period, and is particularly impressive when contrasted with the 0.8% unit volume loss rate for the 52-week span.

Drug store volume up 6.5%

During the same 28-day reporting period, drug store HBA unit volume rose 6.5%, a higher rate of increase than in food stores. This is due to the fact that the most recently added growth categories, such as thermometers and elastic goods and dressings, figure more importantly in the product mix in drug stores than in food stores.

Without the five new categories, the gain rate for HBA items would have been 0.3% for drug stores, and 1.4% for food stores.

The most recently created product group, miscellaneous personal needs, had the highest growth rate (+23.2%) of the nine now reported by Arbiton/SAMI. In all, there were seven product groups with four-week unit gains and only two, shaving needs (–2.3%) and skin care aids (–3.1%), with declines.

At the category level, gains outstripped losses 34 to 22, with one category unchanged. Gains of more than 20% were found in the razors and blades category (+28.7%), and in the miscellaneous personal needs categories of thermometers (+25.4%), contraceptives (+23.7%) and home testing kits (+22.3%).

The highest loss rate for a category was 22.5% for appetite suppressants. The category volume was undoubtedly affected by the growth of Slim Fast and Ultra Slim Fast, which are reported as shelf-stable foods in the measured diet meals category.

Comparing four-week and 12-week performances, there were trend improvements in three of the four baby needs categories. But two categories in this product group still had four-week loss rates: infant clothes (–4.9%) and baby oils, creams and lotions (–2.8%). These two categories have higher loss rates for the full year.

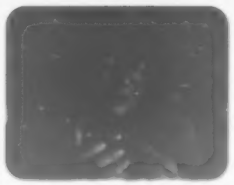
In the deodorant product group, the best showing was the 10.5% gain for feminine douches/washes/powders, while the highest loss rate was 7.9% for sprays. There were sizable gains for deodorants and talcum powders (9.9%) and foot deodorants and athlete's foot remedies (+6.0%). Within this product group, four categories have annualized loss rates: cream deodorants (–10.6%), roll-ons (–8.1%), deodorant and talcum powders (–4.0%) and sprays (–2.1%). For the full year, the highest gain rate is a 6.3% improvement among feminine hygiene deodorants.

New first aid items

All three first aid categories enjoyed four-week unit sales growth, paced by the 98.1% jump for elastic goods and dressings. Part of this increase

Sales Lagging?
Maybe All They Need
Is A Little Push.

AIRLOC



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SAMI UPDATE

resulted from the 1989 addition of new items for tracking in this category. The four-week trends of both first aid products (+7.7%) and first aid antiseptics (+3.9%) were more favorable than their 12-week trends of +3.1% and +2.2%, respectively.

Hair care needs gain

Although four of the seven SAMI categories of hair care needs fell behind their year-earlier levels, growth among the high-volume categories was sufficient to bring about a 3.8% gain in the entire product group. The gain rates were 12.9% for hair setting needs, 8.2% for hair conditioning rinses and 6.4% for the most important hair care needs category, shampoo. Losses were in home permanent kits (−9.2%), hair dressing needs (−8.1%), hair spray (−2.5%) and hair coloring (−2.0%).

Only two of the oral hygiene categories suffered losses. Denture cleaners fell 7.3% in four-week unit sales, and toothpastes and powders volume was 0.6% lower than last year. This four-week loss in the highest-volume category in the product group constitutes an improvement over the annual loss rate of 4.3%. The best gain rates were achieved by toothbrushes (+10.6%), breath fresheners (+8.7%) and dental aids (+5.8%).

Eight of the 14 categories of proprietary remedies recorded gains. The best showing was contributed by natural vitamins, minerals and supplements, where unit volume rose 11.2%. Internal analgesics were up 1.3%, in contrast to a loss rate of 1.9% for the full 52-week period. Cold remedies (+4.1%) were in the plus column, but there were declines in the other cough/cold categories: nasal sprays-drops-inhalers (−3.7%), chest rubs (−2.0%), and cough remedies (−1.0%).

The growth rate for eye care products has been consistent. The current four-week increase in unit volume is slightly better than the 12- and 52-week trends (+6.5%). Lesser gains were found among laxatives and stool softeners (+3.3%), and sleeping aids (+2.3%).

Impressive gains for the two lowest-volume categories of shaving needs—pre-shave lotions (+8.2%) and razors and blades (+28.7%)—were not sufficient to erase losses for razor blades (−3.1%), shaving creams (−2.8%) and after-shave lotions (−0.5%).

The four-week unit volume declines in the skin care product group were found in the two highest-volume categories—lip care products (−9.1%) and hand and body creams and lotions (−4.5%).

Gains of 4.7% and 3.2%, respectively, were recorded by cosmetic and medicated skin aids, and facial preparations. The highest four-week gain was 4.9%; but since this was for suntan lotions and oil at a low-volume time of the year, the gain holds little significance. ■

TECHNOLOGY

Continued from page 16

third generation controller, or by making a significant investment in supplemental computers to augment the limitations of the older scanning hardware.

If your company enters the advanced level, you will be able to consider some of the following strategies:

—electronic couponing;

—using consumer data for targeted direct mail programs;

—POS instant rewards;

—frequent shopper savings accounts; and

—repeat purchase reward programs.

And the list can grow and grow.

If, as I believe, the industry will move to rewards that are in some form "bankable," like airline mileage, you will need to consider how customers will redeem their "savings," and how they can have access to their account balance on a daily basis. This will lead you to consider customer access to a card reader and terminal within the store.

This issue can be complicated—not because of the design of the customer terminal, but because of the problem of deciding how—and how often—your company updates (with purchase information from any of your stores where the customer shops) the file that a customer accesses.

What begins as a simple discussion of cards will lead you and your company along a strategic path that may influence the future success of your company. The moral: Don't make decisions based on this year's requirements. Try to project the future before finalizing your short-term strategies. ■